

Federal Grain Limited

THIRTY-EIGHTH ANNUAL REPORT 1967

AR43



Federal Grain Ltd

1966

Rev. \$ 16,502,848

Profit 1,667,480

Share .083

Searle Grain Co. Ltd.

Alberta Pacific Grain Ltd.

The original oil paintings that are reproduced on the front and back covers of this report were painted by Mr. Barry A. Burdeny of Winnipeg, Manitoba.

1966-67 Highlights

- Canada harvests record crop.
- Export sales decline.
- Operations integrated under single name, Federal Grain Limited.
- Two million bushel expansion program completed at Lakehead terminal.
- Merchandising activities of company expanded.
- Authorized capital increased from 3,800,000 shares to 6,000,000 shares on August 1, 1967.
- Net earnings of company are \$3,238,653 or 88.9 cents per common share.

Federal Grain Limited Thirty-Eighth Annual Report 1967

DIRECTORS

		H. E. SELLERS, C.B.E. Honourary Chairman of the Board	S. A. SEARLE, Sr. Honourary Chairman of the Board		
J. E. GAGE	F. L. GLASGOW	A. S. LEACH	J. A. MacAULAY, Q.C.	E. H. MONCRIEFF	S. A. SEARLE, Jr.
	G. H. SELLERS	W. P. SCOTT	C. G. SMITH	J. T. TRYON, C.A.	

OFFICERS

A. S. LEACH Chairman of the Board	G. H. SELLERS President and Chief Executive Officer	S. A. SEARLE, Jr. Executive Vice-President	J. E. GAGE Vice-President	J. T. TRYON, C.A. Vice-President and General Manager
R. J. BAILEY Vice-President and Secretary	E. M. NOSWORTHY Treasurer	R. M. DOTT, C.A. Assistant Secretary	G. N. HALL Assistant Treasurer	R. B. KELLEY Assistant Treasurer

REGISTRARS

THE ROYAL TRUST COMPANY Toronto, Montreal and Winnipeg	MONTREAL TRUST COMPANY Toronto, Montreal and Winnipeg
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The Company and Its Subsidiaries

as at October 1, 1967



FEDERAL GRAIN LIMITED

PACIFIC ELEVATORS LIMITED

ALBERTA PACIFIC GRAIN PRODUCTS CO. LTD.

FEDERAL PACIFIC SUPPLIES LIMITED

THE ALBERTA PACIFIC CONSTRUCTION
COMPANY LIMITED

SEABAR EQUIPMENT LTD.

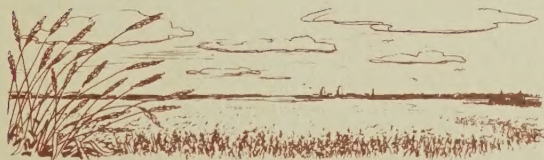
With a majority interest in

WESTLAND ELEVATORS LIMITED

BURRARD TERMINALS LIMITED

Report to the Shareholders

For the year ended July 31, 1967



Your Directors are pleased to present the Annual Report and Audited Statements of Federal Grain Limited and its wholly owned subsidiaries for the year ending July 31, 1967.

This year has been a most significant year in our company's history. Our merger with Searle Grain Company Limited, which was approved by our shareholders on August 8, 1966, has been completed. Since August 1, 1967, the operations of Alberta Pacific Grain Ltd., Searle Grain Company Limited and Federal Grain Limited have been carried on under the single name, Federal Grain Limited.

At this time the authorized capital was increased from 3,800,000 to 6,000,000 shares and the Searle 7% preferred shares were converted to Federal 7% preferred shares with a reduced call price.

INTEGRATION

Together with the integration of our company's operations, this year under review saw our company continue its active policy towards diversification. The merchandising activities of our company have been expanded and sales in this area have increased by 26 per cent over the previous year.

Our country elevator system handled a record number of bushels during the period under review. Terminals at both the Pacific Coast and the Lakehead worked at near capacity to help meet Canada's export commitments. This past year saw the completion of a 2,000,000 bushel storage addition to our Port Arthur terminal, increasing our total storage capacity at the Lakehead to 18.7 million bushels. During the year our company has continued its program of modernizing our terminals at both the Pacific Coast and Lakehead ports.

RECORD CROP

In the fall of 1966, Canada harvested a record crop of 844 million bushels of wheat and 682 million bushels of other cereal grains. Wheat delivered in the 1966-67 crop year amounted to 623 million bushels compared with 570 million bushels for 1965-66. Canada's sales of wheat during the two periods amounted to 517 million bushels in 1966-67 and 582 million bushels in 1965-66.

Our operating revenue does not reflect the size of the crop in any one year because we do not receive our fee for handling grain until shipments have been made from our country elevators.

In our last report we advised you that it was not feasible to present audited Consolidated Profit and Loss Statements. As a result, the attached statements do not show comparative figures for the previous year, however in future our statements will include these figures.

Net earnings from the year's operations amounted to \$3,238,653 after making provision for \$2,193,110 depreciation and \$2,991,000 for income taxes. Provision for preferred share dividends amounted to \$265,300, leaving \$2,973,353 or 88.9 cents per share, available for common shareholders.

Capital Outlay and Other Expenditures

Merger

Country Elevators

Terminal Elevators



CONSTRUCTION OF, AND IMPROVEMENT TO, FACILITIES (NET)

Country elevators and annexes	\$1,284,500
Marketing facilities (fertilizer warehouses, service stores)	98,600
Terminals	1,805,100
Sundry	825,400
	<u>\$4,013,600</u>

* * * *

The merger of Federal Grain Limited, Searle Grain Company Limited and Alberta Pacific Grain Ltd., is now an accomplished fact.

On August 1, 1967 the new Federal Grain Limited came into being with the issuance of letters patent by the Secretary of State for Canada. For the year ended July 31, 1967, it was necessary to operate the three companies as separate entities on a parent-subsidary relationship.

During the year under review, the multi-faceted task of consolidating the operations of the three companies has been completed. We have now developed a strong foundation of operating practices and management information systems on which we can move forward to meet the challenges of the future.

The company is directing its accounting and management information requirements towards the installation of a third generation computer which will soon be in operation. By using the new information system, we expect to improve our competitive position.

* * * *

Our company handled a record number of bushels at our country elevator points during the past year. With the integration of the Federal, Alberta Pacific and Searle elevator systems, the new company now has 1200 country elevators across Western Canada. A program of modernizing the system is underway. In addition to this, a program has been implemented to have all elevators and terminals repainted in our company's new modern design.

* * * *

Near record handles were achieved at our terminal elevators at both the Pacific Coast and at the Lakehead. In addition to the 2,000,000 bushel expansion program, our Port Arthur terminal was also modernized to handle the largest vessels capable of plying the St. Lawrence Seaway and new cleaning equipment has been installed. The Board of Grain Commissioners for Canada, recognizing the need for improved terminal facilities, increased terminal elevation tariffs effective January 1, 1967 by one cent per bushel. This action was necessary to maintain an efficient grain handling system and therefore is in the best interest of producers.

Merchandising

1967 Crop

Elevator Handling



As part of our company's continuing diversification policy, we are expanding the merchandising arm of the company. New product lines have been introduced and an advertising department created. Our company has developed 300 dealerships which along with our country elevator system, greatly strengthens the merchandising activities of our company.

During the year under review, our sales increased by \$3,344,045, an increase of 26 per cent over the previous year. Our sales of fertilizer increased 25 per cent, chemicals 37.6 per cent, farm supplies 42 per cent and seed 28.3 per cent. Our coal sales have decreased by 19.9 per cent. This reflects the growing trend to use propane or oil for heating farm homes.

In the coming years, the company will continue to develop and expand its merchandising operations.

* * * *

Despite poor growing conditions for the 1967 crop year, Western Canada's crops have turned out to be much better than anticipated. An early estimate of the crop indicates a harvest of more than 1,042,000,000 bushels of all grains compared with last year's record crop of 1,411,000,000 bushels. Wheat production is estimated to be 574,000,000 bushels, compared with 807,000,000 bushels last year.

During the growing season, Western Canada received very little rain. In a weighted rainfall average against wheat acreage, Manitoba had 76 per cent of normal, Alberta 80 per cent of normal, and Saskatchewan, only 46 per cent of normal. This situation was aggravated by a much greater than normal number of sunshine hours during the growing season which tended to evaporate quickly the little moisture that was received.

Agriculturists claim that fertilizers saved the 1967 crop from disastrous losses due to drought. More than 800,000 tons of fertilizers were used in 1967 and this year's harvest would indicate that the application of fertilizers permitted the complete utilization of all available rainfall and moisture reserves.

The quality of the 1967 crop is generally excellent. Western Canada was blessed with excellent harvesting weather.

The most significant development in other grains is the sharp reduction in flax production which has resulted in increased prices. This year, production has decreased by 50 per cent. This is attributed to both a reduction in acreage as well as generally poor yields.

* * * *

Our Company has experienced rising costs in every area, and this trend is continuing. Despite this the Canadian Wheat Board did not permit an increase in handling charges in 1966-67. The charges remained at levels established 20 years ago. It was only due to efficient handling and to the large and active part your company is playing in other diversified areas such as chemicals and fertilizers that permitted us to maintain our earnings position.

After protracted negotiations in the summer of 1967, a new agreement has been signed with the Wheat Board which will permit an increase in handling charges of $\frac{3}{4}\text{¢}$ on wheat, $\frac{1}{2}\text{¢}$ on oats and $\frac{3}{4}\text{¢}$ on barley for the ensuing year.

Future Agricultural Prospects

The past year has been a most exciting year for new developments in Agriculture. This year saw the release of the first variety of Triticale (trit-i-cay-lee) which is a new cereal grain that has been developed from a cross between Durum Wheat and Rye.

The immediate indications are that Triticale will be a high yielding feed grain. Research is continuing in an attempt to develop a strain suitable as a food grain. If Triticale is accepted as both a food grain and a feed grain for export, in time it could change the whole pattern of Wheat production in Canada.

Advances are also taking place in the research into production of Hybrid Wheat. It is considered possible that within the next three to five years Hybrid Wheat will be an established commercial product and as such will have a profound effect on seed production and distribution. A Hybrid variety will not reproduce seed suitable for planting the following spring and therefore the seed must be produced under research conditions. Producers, if they desire to grow Hybrid Wheat must purchase new seed each year. It is anticipated that Hybrid Wheat will produce yields substantially greater than the present varieties of Spring Wheat.

The coating of seeds with plastics is now at the stage where laboratory work will soon be followed by larger scale pilot projects. University of Manitoba Plant Scientists have developed a technique of coating seed grain with plastic. This permits the grain to be seeded in the fall at the producer's convenience. The seed remains dormant over the winter but during the early spring the coating cracks and the seed germinates. This will allow the growing cycle to begin before the time of normal planting and germination and will result in a harvest well in advance of freezing temperatures. If the producer is able to obtain coated seed, many of the former worries of a wet spring will be overcome because the producer will be able to sow his spring crop during dry weather in the previous fall. Experiments are also being made to determine if fertilizers and systemic fungicides may be coated and similarly sown in the soil at the same time as the seed grain.

Your company participates in the Hybrid Wheat research project. Our senior officers and staff are also involved in an educational program both with students at the University of Manitoba and with producers throughout Western Canada.

On the demand side of the picture it is becoming very apparent that the demand for Rapeseed could increase over the next several years. Rapeseed is becoming more competitive with Soybeans in world markets. As the use of Rapeseed meal as a livestock feed becomes more accepted by the world livestock industry, the demand for Rapeseed is expected to increase substantially in the coming years.

* * * *

Your Directors wish to express their appreciation to the officers and staff for their combined efforts on behalf of the company, which have contributed greatly to another year of progress. On behalf of the Board

A. H. Leach

October 17, 1967

Chairman of the Board

S. A. Bell

President



Auditors' Report

TOUCHE, ROSS, BAILEY & SMART

CHARTERED ACCOUNTANTS

HALIFAX
QUEBEC
MONTREAL
TORONTO
LONDON
REGINA
NORTH BATTLEFORD
EDMONTON

SAINT JOHN
OTTAWA
HAMILTON
WINNIPEG
SASKATOON
CALGARY
VANCOUVER
VICTORIA

213 NOTRE DAME AVENUE
WINNIPEG 2, MAN.
TELEPHONE 942-3426

UNITED STATES OF AMERICA
GREAT BRITAIN
AND OTHER COUNTRIES
THROUGHOUT THE WORLD
CABLE ADDRESS "TOUCHEROSS"

AUDITORS' REPORT

To the Shareholders,
Federal Grain, Limited,
Winnipeg, Manitoba.

We have examined the consolidated balance sheet of Federal Grain, Limited and its subsidiary companies as at 31st July 1967 and the consolidated statements of earnings, earnings employed in the business and source and application of funds for the year then ended. For Federal Grain, Limited and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. With respect to the subsidiaries of which we are not the auditors, we have carried out such enquiries and examinations as we considered necessary in order to accept for purposes of consolidation the reports of the other auditors.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at 31st July 1967 and the results of their operations and the source and applications of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba,
17th October 1967.

Touche, Ross, Bailey & Smart

Chartered Accountants.

Federal Grain Limited and its Subsidiary

ASSETS

CURRENT

Cash	\$ 1,938,743
Marketable securities, at the lower of cost or market	357,269
Accounts receivable	
Customers and sundry	7,116,360
The Canadian Wheat Board	825,921
Stocks on hand—Note 2	68,489,407
Accrued earnings	720,294
Prepaid expenses	819,445
	<u>80,267,439</u>

SPECIAL REFUNDABLE TAX

202,939

INVESTMENTS IN AND ADVANCES TO SUBSIDIARY COMPANIES—Note 1

Investments, at cost	5,701
Advances	142,820
	<u>148,521</u>

OTHER INVESTMENTS

Mortgages and agreements for sale receivable	243,105
Memberships in and shares of grain trade organizations, at cost	1,378,086
Shares of other grain and seed companies, at cost	1,307,177
	<u>2,928,368</u>

FIXED

Terminals, country elevators and other properties, at cost	66,407,399
Accumulated depreciation	47,026,121
	<u>19,381,278</u>

On Behalf of the Board
A. S. LEACH, Director
G. H. SELLERS, Director

\$102,928,545

LIABILITIES AND SHAREHOLDERS' EQUITY**CURRENT**

Bank loans, secured—Note 3	\$ 40,106,296
Notes payable	2,900,000
Outstanding cash tickets and grain settlements	9,285,725
Other accounts payable	7,971,234
Accrued taxes including income taxes	2,485,627
Dividends payable	233,575
	<u>62,982,457</u>

LONG TERM

6% Debentures Series "A" due 1985—Note 4	<u>5,000,000</u>
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DEFERRED INCOME TAXES—Note 5784,686**MINORITY INTEREST IN SUBSIDIARY COMPANY**

7% cumulative redeemable preference shares (current redemption price \$4,055,300)	<u>3,790,000</u>
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SHAREHOLDERS' EQUITY

Capital stock—Note 6	
Authorized	
3,800,000 common shares without nominal or par value	
Issued and fully paid	
3,345,000 shares	9,837,500
Excess of book amount of net assets acquired over the cost of shares of a subsidiary	311,937
Reserve for employee retirements	800,629
Reserve for special repairs	300,000
Earnings employed in the business	19,121,336
	<u>30,371,402</u>

\$102,928,545

Federal Grain Limited and its Subsidiary Companies

STATEMENT II

CONSOLIDATED STATEMENT OF EARNINGS EMPLOYED IN THE BUSINESS FOR THE YEAR ENDED 31st JULY 1967

Balance at 1st August 1966		\$16,524,378
Add Net earnings for the year	\$3,238,653	
Excess realized on disposal of fixed assets	402,450	
Adjustment of prior years' income	<u>57,405</u>	<u>3,698,508</u>
		20,222,886
Deduct Dividends paid on common shares	836,250	
Dividends paid to minority preferred shareholders	<u>265,300</u>	<u>1,101,550</u>
Balance at 31st July 1967		<u><u>\$19,121,336</u></u>

Federal Grain Limited and its Subsidiary Companies

STATEMENT III

CONSOLIDATED STATEMENT OF EARNINGS FOR THE YEAR ENDED 31st JULY 1967

Income from the companies' operations resulting from gross revenue of \$32,874,010 and after meeting all expenses but before taking into account the items shown below—Note 7		\$8,486,653
Less Depreciation	\$2,193,110	
Debenture interest	300,000	
Provision for estimated loss on realization of advances to non-consolidated subsidiary company	100,000	2,593,110
Earnings from operations		5,893,543
Income from investments		336,110
Earnings before providing for income taxes		6,229,653
Less Provision for income taxes		2,991,000
Net earnings for the year		<u><u>\$3,238,653</u></u>

Federal Grain Limited and its Subsidiary Companies

STATEMENT IV

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31st JULY 1967

Working capital at 1st August 1966	\$15,608,035
Add Sale of certain properties, plant and equipment on purchase of subsidiary	<u>1,163,955</u>
	16,771,990

Source of Funds

Net earnings	\$3,238,653	
Charges to earnings not requiring an outlay of funds		
Depreciation	2,193,110	
Deferred income taxes	492,528	
Sale of country elevators and other properties	547,628	
Sale of investments	137,488	
Sale of other assets	<u>2,397</u>	<u>6,611,804</u>
		23,383,794

Application of Funds

Investment in terminals, country elevators and other properties	4,561,267	
Dividends paid to common shareholders	836,250	
Dividends paid to minority preferred shareholders	265,300	
Increase in advance to subsidiary company	55,500	
Provision for Special Refundable Tax	202,939	
Purchase of investments	98,601	
Increase in mortgages and agreements for sale receivable	<u>11,349</u>	
Payment of income taxes in respect of prior years	<u>67,606</u>	<u>6,098,812</u>

Working capital at 31st July 1967	<u><u>\$17,284,982</u></u>
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st JULY 1967

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies except three companies, two of which are inactive, and one whose operations are not comparable with other companies in the group.

The losses for the year ended 31st December 1966 of the subsidiary companies not consolidated amount to \$56,991, and the accumulated deficit amounts to \$255,455.

Full provision has been made in the consolidated statements for estimated loss on realization of the investments in and advances to the subsidiary companies.

2. INVENTORIES

Grain purchased for the account of The Canadian Wheat Board, valued on the basis of Board prices less freight and other charges

\$59,140,709

The Canadian Wheat Board Agency Wheat stocks, at cost

585,651

Owned grain, valued on the basis of relative closing market quotations

5,562,203

Inventories other than grain, valued at the lower of cost or net realizable value

3,200,844

\$68,489,407

3. BANK LOANS

Bank loans are secured by assignment of accounts receivable and inventories.

4. LONG TERM LIABILITIES

Under the terms of the trust indenture securing the 6% Debentures Series "A", the company is required to pay to the Trustee, for the retirement of principal, \$250,000 before 15th October in each of the years 1969 to 1984. The issue is secured by a first floating charge on all assets of the company.

5. DEFERRED INCOME TAXES

For income tax purposes the company claimed maximum capital cost allowances in excess of the depreciation recorded in the accounts. Accordingly the income taxes otherwise payable for the current year were reduced by \$492,528 and the accumulated reduction to 31st July 1967 was \$764,686.

6. CAPITAL STOCK

The Company applied for and obtained Supplementary Letters Patent dated 1st September 1966 giving effect to the following:

(a) Subdividing the 400,000 issued and outstanding Class "B" shares without nominal or par value into 600,000 Class "B" shares without nominal or par value.

(b) Reclassifying the 600,000 Class "B" shares and the 3,200,000 Class "A" shares as 3,800,000 common shares without nominal or par value and combining the issued shares into 2,200,000 common shares

(c) Setting a limit to the consideration for the issue of the 1,600,000 remaining common shares of \$10,000,000.

On 28th September 1966 the Board of Directors of Federal Grain, Limited authorized the allotment and issuance as fully paid of 1,145,000 of the new common shares of the Company to the nominees of Searle Securities Company, Limited in exchange for all the issued and outstanding common shares without nominal or par value of Searle Grain Company, Limited. The Board of Directors set a value of \$8,587,500 on the shares issued reflecting the market price of the stock at the time the offer was made.

On 4th August 1965 Federal Grain, Limited granted options for the purchase of 48,500 shares of its capital stock at a price of \$7.00 per share. The options may be exercised at any time within ten years, not to exceed twenty percent of the shares so optioned in any one year. None of the options had been exercised at 31st July 1967. Of the shares optioned 35,500 were granted to directors who are also officers of the companies. No shares were optioned to directors who are not officers of the companies.

7. DIRECTORS' REMUNERATION

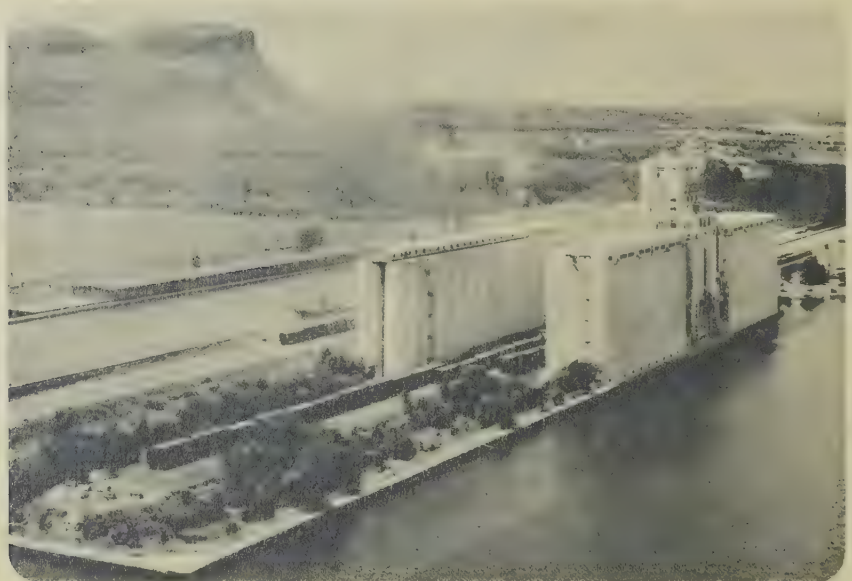
Remuneration received during the year by directors of Federal Grain, Limited and its subsidiary companies as officers, employees or directors of the companies amounted to \$392,776.

8. AMALGAMATION

Under an amalgamation agreement dated 6th June 1967 Federal Grain, Limited and its subsidiary companies Searle Grain Company, Limited and Alberta Pacific Grain, Ltd. contributed all of their assets, subject to all of their liabilities, to the emerging company Federal Grain, Limited, effective 1st August 1967. The agreement was ratified by the shareholders and confirmed by Letters Patent.

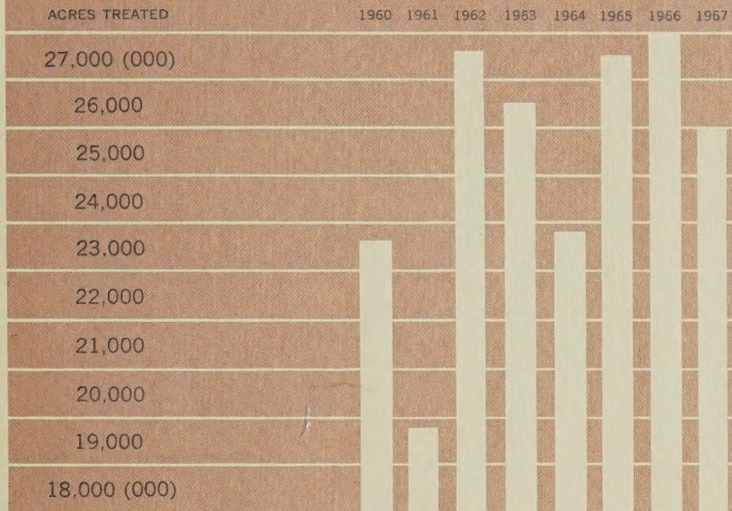
As part of its modernization program, Federal Grain is constructing new elevators each year. The one pictured right is at Cardston, Alberta. The old elevator in the background is used as a storage annex.

Below is the 5 million bushel Searle Grain terminal and pellet mill at the Lakehead that has now been integrated into the company's operations.



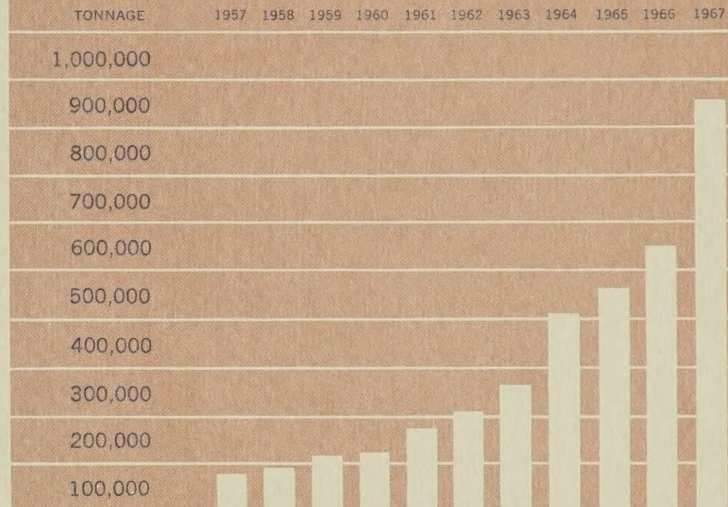
Growth in use of Chemicals and Fertilizers in Prairie Grain Operations

CHEMICALS—(THOUSANDS-ACRES)



FERTILIZERS—(TONS)

(1967 ESTIMATE 867,369 TONS)



GRAIN PRODUCTION—PRAIRIE PROVINCES FOR 12 YEAR PERIOD



The largest shipment of grain ever carried from the Port of Vancouver was loaded recently by Federal Grain Limited's subsidiary, Pacific Elevators Limited. The shipment, consisting of 3,136,000 bushels of No. 1 northern wheat, was loaded aboard the Japanese built MS Sigsilver. Most ocean freighters carry about 750,000 bushels.

